

**CITY OF MANCHESTER**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2014**

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## City of Manchester

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Milt Kramer	Mayor	January 2017
Mary Ann Poynor	Council Member	January 2017
Ron Struble	Council Member	January 2017
Connie Behnken	Council Member	January 2015
Dean Sherman	Council Member	January 2015
Dan Stelken	Council Member	January 2015
Timothy Vick	City Manager	
Erin Learn	City Clerk	
Julie Schmitz	Deputy City Clerk	
James Peters	City Attorney	



James R. Ridihalgh, C.P.A.  
Gene L. Fuelling, C.P.A.  
Donald A. Snitker, C.P.A.  
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639  
Oelwein, IA 50662  
(319)283-1173  
Fax (319)283-2799

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manchester, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manchester as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



## **Other Matters**

### *Supplementary and Other Information*

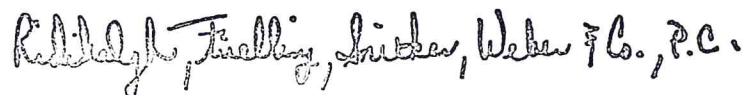
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 32 through 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2015 on our consideration of the City of Manchester's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Manchester's internal control over financial reporting and compliance.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C.

February 23, 2015

**City of Manchester**

The City of Manchester provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year that ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow:

### **2014 FINANCIAL HIGHLIGHTS**

- The City's general purpose property tax revenues grew, increasing by \$50,116, to \$1,849,106. Overall revenues decreased by \$247,965, or approximately 2.95%, to \$8,144,394 from fiscal 2013 to fiscal 2014.
- Disbursements decreased by approximately 12.4%, or \$1,325,513, to \$9,361,849 from fiscal 2013 to fiscal 2014.
- The City's total cash basis net assets increased by approximately 1%, or \$21,293, to \$4,167,087 from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities increased approximately \$352,334 and the assets of the business type activities decreased approximately \$331,041.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

**Management's Discussion and Analysis** introduces the basic financial statements and provides an analytical overview of the City's financial activities.

**Government-wide Financial Statement** consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

**Fund Financial Statements** tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

**Notes to Financial Statements** provide additional information essential to a full understanding of the data provided in the basic financial statements.

**Other Information** further explains and supports the financial statements with a comparison of the City's budget for the year.

**Supplementary Information** provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted



accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water department and sanitary sewer department. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

**Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Governmental funds are further broken down into the following activities:

Public Safety - This category includes police and communications center operations, disaster control, fire protection, and animal control services.

Public Works - This category includes roadway maintenance, traffic safety, street cleaning, storm/street drainage, airport, solid waste collection, snow removal, compost facility, local option tax, and equipment reserve.

Culture and Recreation - This category includes library, parks, recreation programs, family aquatic center, sports complex, and special events.

Community and Economic Development - This category includes community beautification, economic development, building and housing, planning and zoning, and revolving loan fund.



General Government - This category includes legislative, administration, tax revenue, insurance, employee benefits, local access cablevision and other general government.

Debt Service - This category includes general and tax increment financing debt service.

Capital Projects - This category includes the Downtown Incentive Program, Housing Grant Projects, Street Projects, and other capital projects.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

**Proprietary Funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statements for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2,824,666 to \$3,177,000.

The City's receipts including other financing sources for governmental activities totaled \$7,916,148 for Fiscal 2014. The total cost of all programs and services was \$7,569,814. The net result was a surplus of \$352,334 for Fiscal 2014.

The City kept property tax rates the same for 2014 with a rate of \$15.57592. With changes to Residential Rollback, this resulted in an additional \$68,522 in property tax revenues.

The cost of all governmental activities this year was \$7,563,814 compared to \$8,449,627 last year. As shown in the Statement of Activities and Net Assets, the amount of property taxes ultimately utilized for these activities was only \$2,487,134 because some of the cost was paid by other city taxes, which include local option taxes (approximately \$473,132), by those directly benefited from the programs (approximately \$450,766), or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,568,778). The City paid for the remaining public benefit portion of governmental activities with approximately \$2,590,004 as follows: bond proceeds, interest, funds held in reserve for specific projects, and transfers from other funds.

Total business type activities receipts for the fiscal year were \$1,466,994 compared to \$2,984,416 last year. The cash balance decreased by \$331,041 due primarily to expenditures for Water Capital Projects occurring in the City. Total disbursements for the fiscal year were \$1,798,035, a decrease of approximately 19.65% over the prior year. This decrease was primarily due to the completion of various water and sewer capital projects.

### **INDIVIDUAL GOVERNMENTAL FUND ANALYSIS**

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$3,177,000, an increase of \$352,334 from last year's total of \$2,824,666. The following are the major reasons for the change in fund balances of the major funds from the prior year:

- The Debt Service Fund cash balance increased by \$172,633 from the prior year to \$283,088. This increase was due to the 2014 General Obligation Bond Proceeds received at the end of fiscal 2014 that were used for capital projects in early fiscal 2015.
- The Capital Project, Street Projects Fund cash balance decreased by \$660,340 from the prior year to \$226,744. This decrease was attributable to the expenditure of bond proceeds received in the prior fiscal year for street project work within the City.
- The Capital Project, Whitewater Park Project Fund cash balance was \$762,154 at the end of the fiscal year due to the receipt of 2014 General Obligation Bond Proceeds and grant proceeds for the construction of the Whitewater Park.

The changes in the governmental funds as a whole are due primarily to the timing of capital projects and the funding for these projects. The construction season typically runs from April through October, and subsequently crosses over two fiscal years, as the City's fiscal year is July 1 through June 30. Therefore revenues may be received in one fiscal year but not spent until the next fiscal year, and vice versa.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased by \$128,973 to \$128,448. This decrease was due to expenditures related to capital projects.
- The Enterprise, Sewer Fund cash balance decreased by \$42,913 to \$177,565. This decrease was primarily due to expenditures related to capital projects.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on April 14, 2014, and was necessary, in large part, due to the timing of the Whitewater Park Project and the funding for the project; additional assessments received; bond issuance and the refunding of existing bonds; property acquisition; and the timing of capital projects.

#### **DEBT ADMINISTRATION**

At June 30, 2014, the City had \$6,222,000 in general obligation bonds, compared to \$6,625,000 last year, as shown below. Additionally, the City had \$4,945,000 in sewer revenue bonds and \$750,000 in water revenue bonds at June 30, 2014.

City of Manchester Outstanding Debt at Year-End		
	June 30,	
	2014	2013
General obligation bonds	\$ 6,222,000	\$ 6,625,000
State Revolving Fund Revenue Bonds	5,695,000	5,916,862
Total	<u>\$11,917,000</u>	<u>\$ 12,541,862</u>



The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and tax increment debt of \$6,222,000 is significantly below its constitutional debt limit of \$13,491,902.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Manchester's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates, and fees charged for various city activities. One of those factors was the significant changes made to Iowa's property tax system during the 2013 legislative session. While the City Council voted to freeze the property tax levy rate at \$15.57592 for fiscal year 2015, financial uncertainty of the current economy and the estimated impact of the changes to the property tax system may result in levy rate increases in future budget years.

Revenues tied to the economy continue to remain steady with local option sales tax receipts and road use tax revenues projected to meet or exceed estimates. Additionally, in 2013, the City implemented collection of franchise fees from gas and electric utilities in order to provide funding for an additional officer in the Police Department and to pay for the cost of electricity for street lighting. Manchester's commercial and industrial districts continue to thrive with few mandatory layoffs, no shutdowns, and limited vacant storefronts.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT DEPARTMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Timothy J. Vick, City Manager, or Erin Learn, City Clerk, 208 East Main Street, Manchester, Iowa.

## **Basic Financial Statements**



## City of Manchester

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
<b>Governmental activities:</b>				
Public safety	\$ 1,283,259	27,652	251,694	50,988
Public works	1,210,853	370,952	627,226	1,386
Culture and recreation	849,916	157,401	56,671	199,389
Community and economic developme	328,015	80,520	15,174	477,043
General government	235,480	9,747	18,803	-
Debt service	1,703,677	-	-	1,531
Capital projects	1,952,614	-	-	-
Business type	-	34,651	-	-
<b>Total governmental activities</b>	<b>7,563,814</b>	<b>680,923</b>	<b>969,568</b>	<b>730,337</b>
<b>Business type activities:</b>				
Water	634,636	711,401	2,604	-
Sewer	455,341	1,086,777	-	-
Sewer debt service	421,935	-	-	-
Other business type activities	286,123	8,401	-	8,785
<b>Total business type activities</b>	<b>1,798,035</b>	<b>1,806,579</b>	<b>2,604</b>	<b>8,785</b>
<b>Total</b>	<b>\$ 9,361,849</b>	<b>2,487,502</b>	<b>972,172</b>	<b>739,122</b>

**General Receipts:**

Property tax levied for:  
     General purposes  
     Tax increment financing  
 Debt service  
 Other city tax  
 Local option sales tax  
 Unrestricted interest on investments  
 Bond proceeds, net  
 Miscellaneous  
 Sale of assets  
 Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

**Cash Basis Net Position**

## Restricted:

## Expendable:

Streets  
 Debt service  
 Capital expenditures  
 Urban renewal purposes  
 Other purposes

Unrestricted

**Total cash basis net position**

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
--	--	--

Governmental Activities	Business Type Activities	Total
(952,925)	-	(952,925)
(211,289)	-	(211,289)
(436,455)	-	(436,455)
244,722	-	244,722
(206,930)	-	(206,930)
(1,702,146)	-	(1,702,146)
(1,952,614)	-	(1,952,614)
34,651	-	34,651
(5,182,986)	-	(5,182,986)
-	79,369	79,369
-	631,436	631,436
-	(421,935)	(421,935)
-	(268,937)	(268,937)
-	19,933	19,933
(5,182,986)	19,933	(5,163,053)

1,849,106	-	1,849,106
460,648	-	460,648
637,373	-	637,373
338,843	-	338,843
469,965	-	469,965
20,417	5,427	25,844
1,126,610	112,138	1,238,748
147,196	15,424	162,620
1,199	-	1,199
483,963	(483,963)	-
5,535,320	(350,974)	5,184,346
352,334	(331,041)	21,293
2,824,666	1,321,128	4,145,794
\$ 3,177,000	990,087	4,167,087

\$ 684,622	-	684,622
283,088	324,645	607,733
112,308	-	112,308
70,840	-	70,840
82,318	-	82,318
1,943,824	665,442	2,609,266
\$ 3,177,000	990,087	4,167,087

## City of Manchester

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2014

	General	Special Revenue Local Option Tax	Capital Project Whitewater Park Projects	Street Projects	Debt Service
<b>Receipts:</b>					
Property tax	\$1,403,324	-	-	-	637,373
Tax increment financing collections	-	-	-	-	-
Other city tax	48,724	469,965	-	-	857
Licenses and permits	59,605	-	-	-	-
Use of money and property	20,788	3,167	-	1,511	1,531
Intergovernmental	386,785	-	190,000	-	-
Charges for service	446,461	-	-	-	-
Special assessment	-	-	-	67,952	-
Miscellaneous	119,489	-	-	1,386	-
<b>Total receipts</b>	<b>2,485,176</b>	<b>473,132</b>	<b>190,000</b>	<b>70,849</b>	<b>639,761</b>
<b>Disbursements:</b>					
Operating:					
Public safety	1,277,090	-	-	-	-
Public works	625,668	-	-	-	-
Culture and recreation	768,839	-	-	-	-
Community and economic development	188,411	-	-	-	-
General government	192,857	-	-	-	-
Debt service	-	-	-	-	1,703,677
Capital projects	-	-	25,954	1,556,445	-
<b>Total disbursements</b>	<b>3,052,865</b>	<b>-</b>	<b>25,954</b>	<b>1,556,445</b>	<b>1,703,677</b>
<b>Excess of receipts over disbursements</b>	<b>(567,689)</b>	<b>473,132</b>	<b>164,046</b>	<b>(1,485,596)</b>	<b>(1,063,916)</b>
<b>Other financing sources (uses):</b>					
Bond Proceeds, net of \$3,390 discount	-	-	-	-	1,126,610
Miscellaneous	-	-	-	-	-
Operating transfers in	708,221	-	600,000	825,256	1,030,739
Operating transfers out	(146,803)	(474,383)	-	-	(920,800)
<b>Total other financing sources (uses)</b>	<b>561,418</b>	<b>(474,383)</b>	<b>600,000</b>	<b>825,256</b>	<b>1,236,549</b>
<b>Net change in cash balances</b>	<b>(6,271)</b>	<b>(1,251)</b>	<b>764,046</b>	<b>(660,340)</b>	<b>172,633</b>
<b>Cash balances beginning of year</b>	<b>592,546</b>	<b>494,910</b>	<b>(1,892)</b>	<b>887,084</b>	<b>110,455</b>
<b>Cash balances end of year</b>	<b>\$ 586,275</b>	<b>493,659</b>	<b>762,154</b>	<b>226,744</b>	<b>283,088</b>
<b>Cash Basis Fund Balances</b>					
<b>Restricted for:</b>					
Streets	\$ -	493,659	-	-	-
Debt service	-	-	-	-	283,088
Capital expenditures	-	-	-	-	-
Urban renewal purposes	-	-	-	-	-
Other purposes	-	-	-	-	-
<b>Committed for:</b>					
Capital expenditures	-	-	-	-	-
Other purposes	27,690	-	-	-	-
<b>Assigned for:</b>					
Capital expenditures	199,099	-	762,154	226,744	-
Other purposes	50	-	-	-	-
Unassigned	359,436	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 586,275</b>	<b>493,659</b>	<b>762,154</b>	<b>226,744</b>	<b>283,088</b>

See notes to financial statements

Other Nonmajor Governmental Funds	Total
446,437	2,487,134
460,648	460,648
288,607	808,153
-	59,605
3,267	30,264
991,993	1,568,778
4,305	450,766
83,495	151,447
167,905	288,780
2,446,657	6,305,575

6,169	1,283,259
585,185	1,210,853
81,077	849,916
139,604	328,015
42,623	235,480
-	1,703,677
370,215	1,952,614
1,224,873	7,563,814
1,221,784	(1,258,239)

-	1,126,610
-	-
106,720	3,270,936
(1,244,987)	(2,786,973)
(1,138,267)	1,610,573
83,517	352,334
741,563	2,824,666
825,080	3,177,000

190,963	684,622
-	283,088
112,308	112,308
70,840	70,840
82,318	82,318
180,225	180,225
101,625	129,315
230,218	1,418,215
38,429	38,479
(181,846)	177,590
825,080	3,177,000



## City of Manchester

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2014

	Water	Sewer	Sewer Debt Service
Operating receipts:			
Use of money and property	\$ 18,028	785	4,573
Intergovernmental	-	-	-
Charges for service	708,704	1,086,597	-
Special Assessment	2,697	-	-
Miscellaneous	-	180	-
Total operating receipts	729,429	1,087,562	4,573
Operating disbursements:			
Business type activities	634,636	455,341	421,935
Total operating disbursements	634,636	455,341	421,935
Excess (deficiency) of operating receipts over (under) operating disbursements	94,793	632,221	(417,362)
Other financing sources (uses):			
Bond Proceeds, net of \$9,090 issuance fee	112,138	-	-
Miscellaneous	-	-	-
Operating transfers in	-	-	477,807
Operating transfers out	(335,904)	(675,134)	(65,320)
Total other financing sources (uses)	(223,766)	(675,134)	412,487
Net change in cash balances	(128,973)	(42,913)	(4,875)
Cash balances beginning of year	257,421	220,478	329,520
Cash balances end of year	\$ 128,448	177,565	324,645
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	-	324,645
Committed for capital expenditures	-	-	-
Assigned for:			
Capital expenditures	-	-	-
Other purposes	-	-	-
Unassigned	128,448	177,565	-
Total cash basis fund balances	\$ 128,448	177,565	324,645

See notes to financial statements

Other Nonmajor Proprietary Funds	Total
69	23,455
-	-
8,401	1,803,702
-	2,697
8,785	8,965
17,255	1,838,819
286,123	1,798,035
286,123	1,798,035
(268,868)	40,784
-	112,138
-	-
114,588	592,395
-	(1,076,358)
114,588	(371,825)
(154,280)	(331,041)
513,709	1,321,128
359,429	990,087
-	324,645
47,457	47,457
-	-
167,977	167,977
44,397	44,397
99,598	405,611
359,429	990,087

City of Manchester

Notes to Financial Statements

June 30, 2014

**(1) Summary of Significant Accounting Policies**

The City of Manchester is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Manchester has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

Delaware County Economic Development Commission  
Delaware County Solid Waste Commission  
Delaware County Conference Board  
Delaware County E911 Board  
Manchester Area Chamber of Commerce  
Community Promotion Board – Hotel/Motel Tax  
East Central Intergovernmental Association  
Foundation for the Future of Delaware County  
Northeastern Iowa Regional League  
Eastern Iowa Regional Housing Authority  
Delaware County Communications Center  
Buchanan County Joint E911 Service Board

The City is also a participant in the following community venture programs:

Community Childcare of Manchester  
Greater Delaware County Community Foundation  
Good to Great  
Manchester Regional Education Partnership

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.



The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue Fund – Local Option Sales Tax is used to account for revenues and expenditures of local option sales tax.

Capital Project:

The Capital Project Fund – Whitewater Park Capital Projects is used to account for revenues and expenditures associated with the construction of a whitewater park in the City.

The Capital Project Fund – Street Projects is used to account for major street construction projects in the City.

The Debt Service Fund is used to account for collection of property taxes levied for the payment of principal and interest on the City's general obligation bonds and notes.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water utility system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer utility system.

The Sewer Debt Service Fund accounts for payments of principal and interest on the City's State Revolving Fund Revenue Bonds.

C. Measurement Focus and Basis of Accounting

The City of Manchester maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the

disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact. The City does not currently have any nonspendable funds.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts only available to be used for specific purposes determined by a formal action by Council ordinance or resolution.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.



Interest rate risk – The City’s investment policy limits the investment of operating funds, (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. The maturities shall be consistent with the needs and use of the City.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization. The balance at June 30, 2014 was \$-0-.

### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for bonds and notes are as follows:

General Obligation		State Revolving Fund			
Bonds and Notes		Revenue Bonds		Total	
Principal	Interest	Principal	Interest	Principal	Interest
\$ 1,250,000	138,795	345,000	160,500	1,595,000	299,295
1,056,000	118,600	356,000	149,820	1,412,000	268,420
972,000	96,257	367,000	138,810	1,339,000	235,067
877,000	74,832	379,000	127,440	1,256,000	202,272
498,000	52,410	392,000	115,680	890,000	168,090
1,352,000	120,277	1,938,000	398,220	3,290,000	518,497
217,000	13,111	1,918,000	118,830	2,135,000	131,941
<u>\$ 6,222,000</u>	<u>614,280</u>	<u>5,695,000</u>	<u>1,209,300</u>	<u>11,917,000</u>	<u>1,823,580</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

#### General Obligation Bonds

On April 23, 2013 the city issued \$1,795,000 of general obligation corporate purpose bonds for 1) constructing street, water system, sanitary sewer system and storm sewer system improvements; 2) the acquisition, demolition and site clearance for dangerous and dilapidated buildings; 3) the settlement of a judgment against the City [see Note 15]; 4) acquiring a snow blower for use by the street department; and 5) to refund the City’s outstanding General Obligation Corporate Purpose Notes, Series 2005. The City received funds in the amount of \$1,785,666 net of \$9,334 discount.

On May 27, 2014 the city issued \$1,130,000 of general obligation corporate purpose bonds for 1) undertaking the Maquoketa Riverfront Redevelopment Project/Manchester Whitewater Park Project; 2) the improvement of property and public facilities that were damaged by the floods of 2004, 2008 and 2010; 3) repairs and improvements to City Hall; and 4) to refund the City’s outstanding General Obligation Corporate Purpose Notes, Series 2007. The City received funds in the amount of \$1,126,610 net of \$3,390 discount.

### Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$4,945,000 of bonds outstanding as of June 30, 2014. The bonds were issued July 2, 2008 for a construction project related to the City's Wastewater Treatment System. The notes are payable solely from sewer customer net receipts and are payable through 2029. Annual principal and interest payments on the notes are expected to require less than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$6,071,770. For the current year, principal and interest paid and total customer net receipts were \$408,940 and \$620,525, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the funds.
- (b) Charges for sewer services shall be at least sufficient to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (c) Charges for sewer services shall be at least sufficient to meet the operation and maintenance expenses of the wastewater treatment system.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$750,000 of bonds outstanding as of June 30, 2014. The bonds were issued December 20, 2011 to pay a portion of the cost of constructing improvements and extensions to the Municipal Waterworks System of the City. The notes are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$832,530. For the current year, principal and interest paid and total customer net receipts were \$103,220 and \$111,095 respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the water activity and the note holders hold a lien on the future earnings of the funds.
- (b) Charges for water services shall be at least sufficient to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (c) Charges for water services shall be at least sufficient to meet the operation and maintenance expenses of the waterworks system.



**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2014, 2013 and 2012 were \$158,740, \$146,702 and \$134,934, respectively, equal to the required contributions for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer benefit plan which provides medical/prescription drug, dental, and vision benefits provided through a plan with Wellmark Blue Cross/Blue Shield for active employees and their families. Retired employees are eligible to participate at their own expense and must be age 55 or older at retirement. There are 34 active and 5 retired members in the plan.

Funding Policy - The contribution requirements of plan members are established by resolution and may be amended by the City. The City fully funds a single coverage policy for employees. Any employees choosing other than a single policy must pay a sliding scale monthly premium up to a maximum of 20% of the total monthly cost. For the year ended June 30, 2014, the City contributed \$229,262 on behalf of plan members.

**(6) Termination Benefits**

In 2007, the City approved a voluntary early retirement plan for employees. The plan was only offered to employees for one year. Eligible employees must have 1) completed at least ten years of full-time service to the City, 2) have reached the age of 55 by December 31, 2007, and 3) have resigned by December 31, 2007. The application for early retirement was subject to approval by the City Council.

Early retirement benefits equal 25% of each day of earned, unused sick leave days, calculated as of the last day of employment prior to retirement. If the employee wanted to continue participation in the City's health insurance plan, the payment would contribute towards the monthly premium not to exceed \$400 per month. The City cease coverage of the retiree upon the earliest of the following: 1) the employee fails to pay any premium balance, 2) the employee becomes deceased, or 3) the employee becomes eligible for Medicare. At June 30, 2014 there was one former employee still receiving benefits under this plan.

In 2014, the City approved a voluntary early retirement for employees. The plan was offered from January 3, 2014 through February 3, 2014 and required any applying employees to set a retirement date before July 31, 2014. Three employees enrolled in this program.

Early retirement benefits include a \$500 monthly contribution to the employees' health reimbursement account and 25, 30, or 35% of accumulated sick pay based on years' service (20, 25, or 30 years, respectively). Monthly payments cease upon the earliest of

the following: 1) the employee fails to pay any premium balance, 2) the employee becomes deceased, or 3) the employee becomes eligible for Medicare.

At June 30, 2014, the City has obligations to four participants with total actual early retirement expenditures for the year ended June 30, 2014 of \$11,193.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of their employment. Vacation leave is for subsequent use or for payment upon termination, retirement or death. Unused sick leave is forfeited upon termination, retirement, or death. The accumulation of vacation leave is not recognized as a disbursement by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 108,707

This liability has been computed based on rates of pay in effect at June 30, 2014.

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**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Franchise Fees	\$ 199,419
	Employee Benefits	374,682
	Police Special Uses	7,038
	Police K9	3,000
	C.O.P.S.	4,000
		<u>588,139</u>
Special Revenue:		
Park Improvement	General	21,020
Tirrill Trust	General	5,700
		<u>26,720</u>
Capital Projects:		
Capital Projects Levied	Capital Projects:	
	Street Improvement	20,000
Downtown Incentive	Special Revenue:	
	Tax Increment Financing	50,000
Whitewater Project	Debt Service	600,000
Bikeway Project	Capital Projects:	
	Street Improvement	10,000
Street Projects	Special Revenue:	
	Local Option Sales Tax	474,383
	Capital Projects:	
	Street Improvement	65,000
	Proprietary:	
	Water	169,802
	Sewer	116,070
		<u>1,505,255</u>
Debt Service	General	
	Special Revenue:	
	Tax Increment Financing	408,697
	Franchise Fees	103,151
	Proprietary:	
	Water	60,805
	Sewer	71,966
	Sewer Debt Service	65,320
		<u>709,939</u>
Proprietary:		
Water Debt Service	Proprietary:	
	Water	105,298
Sewer Replacement	Proprietary:	
	Sewer	9,290
Sewer Debt Service	Proprietary:	
	Sewer	477,807
		<u>592,395</u>
TOTAL		<u><u>\$ 3,422,448</u></u>



Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials during the year ended June 30, 2014 totaling \$25,156.

**(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Economic Development Loans and Agreements**

The City has granted a local company an interest bearing loan in the amount of \$50,000 to make proposed construction improvements to its lot. Principal and interest payments are due in annual installments and began December 31, 2009 continuing through December 31, 2018. The annual interest rate is 2% and the City is provided with a security interest in the real estate mortgage on the land, building, and fixtures of the specified lot.

The City entered into a development agreement on September 10, 2007 for an urban renewal project for the period June 1, 2010 through June 1, 2014. The agreement requires the City to rebate portions of the incremental tax paid by a developer up to \$14,110 a year for five years with a maximum total payment of \$70,550. The tax will be rebated in exchange for certain infrastructure improvements made by the developer. Obligations under the agreement are subject to annual appropriation by the City Council. The City made payments under this agreement of \$14,110 during the year ended June 30, 2014.

The City entered into a development agreement on June 19, 2008 for an urban renewal project beginning on December 1, 2010 and continuing for ten years. The agreement requires the City to rebate portions of the incremental tax paid by a company up to \$176,000. The tax will be rebated in exchange for construction of a warehouse addition by the company. Obligations under the agreement are subject to annual appropriation by the City Council. The City made no payments under this agreement during the year ended June 30, 2014.

The City entered into a development agreement on September 26, 2011 for an urban renewal project. The agreement requires the City to rebate portions of the incremental tax paid by a company up to \$41,500 over three years. The tax will be rebated in order for the company to maintain fiscal viability. Obligations under the agreement are subject to annual appropriation by the City Council. The City made payments under this agreement of \$13,835 during the year ended June 30, 2014.



The City entered into a development agreement on September 19, 2012 for an urban renewal project. Payments to the company are based upon capital investments in, and jobs created at, a local factory. The company has filed none of the required compliance reports and has not requested any grant money from the City as of June 30, 2014.

These agreements are not general obligations of the City however the amounts payable are subject to the constitutional debt limitation of the City.

**(12) Notes Receivable**

The City has loaned money to area businesses as part of its Downtown Incentive Program. The program provides no interest loans to downtown businesses for second story improvements.

Bill Corcoran, due in monthly installments of \$63, beginning on May 1, 2009 through April 1, 2014. The note bears no interest and is unsecured. The note was paid in full during the year ended June 30, 2014.

Schaul LLC, due in monthly installments of \$167, beginning January 1, 2010 through December 1, 2014. The loan bears no interest and is unsecured. Balance due at June 30, 2014 is \$1,000.

Matthew Schulte, due in monthly installments of \$167, beginning June 1, 2011 through May 1, 2016. The loan bears no interest and is unsecured. Balance due at June 30, 2014 is \$3,717.

3-DJ Properties, LLC due in semi-annual installments of \$1,000, beginning on November 1, 2013 through May 1, 2018. The loan bears no interest and is unsecured. Balance due at June 30, 2014 is \$8,000.

**(13) Construction Commitments**

The City awarded a bid to Tschiggfrie Excavating for the Burrington Road Resurfacing Project. The contract total was for \$429,555 of which \$266,999 had been paid before year end.

The City awarded a bid to Connolly Construction, Inc. for the 2014 Street Improvement Project. The contract total was for \$521,400 of which none had been paid before year end.

The City awarded a bid to Tschiggfrie Excavating for the Grand Avenue Water Extension Project. The contract total was for \$59,779 of which none had been paid before year end.

**(14) Deficit Fund Balances**

The the Capital Projects – CDBG Housing Grants Fund had deficit balances of \$181,846 at June 30, 2014. The deficit balances were a result of project costs incurred before grant and loan fund reimbursements. The deficits will be eliminated upon receipt of the grant funds.

**(15) Litigation**

The City is not subject to any pending litigation as of June 30, 2014.

**(16) Subsequent Event**

In July 2014, the City approved an agreement for engineering services related to the 2015 Street Project in an amount not to exceed \$185,000.

In August 2014, the City approved a Joint Agreement in conjunction with Delaware County for GIS services. The agreement stipulates an annual cost to the City of \$12,000. The City also approved a separate agreement for a Comprehensive Housing Market Study in the amount of \$15,000. Also, in August 2014, the City awarded an Economic Development grant in the amount of \$70,000 for demolition of structures at 223 West Main Street and construction of a new medical clinic at the same location.

In September 2014, a contract was approved in the amount of \$1,395,255 for the construction of the Whitewater Park Project.

In December 2014, the City approved a contract for grinding and composting services at the City's compost facility at an annual cost of \$33,000.

In January 2015, the City approved a contract for construction of the Truck Sewer Replacement Project in the amount of \$349,601.

**(17) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for the state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## Other Information

City of Manchester

Budgetary Comparison Schedule  
of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,487,134	-	-
Tax increment financing collections	460,648	-	-
Other city tax	808,153	-	-
Licenses and permits	59,605	-	-
Use of money and property	30,264	23,455	-
Intergovernmental	1,568,778	-	-
Charges for service	450,766	1,803,702	-
Special assessment	151,447	2,697	-
Miscellaneous	288,780	8,965	-
Total receipts	6,305,575	1,838,819	-
Disbursements:			
Public safety	1,283,259	-	-
Public works	1,210,853	-	-
Culture and recreation	849,916	-	-
Community and economic development	328,015	-	-
General government	235,480	-	-
Debt service	1,703,677	-	-
Capital projects	1,952,614	-	-
Business type activities	-	1,798,035	-
Total disbursements	7,563,814	1,798,035	-
Excess of receipts over disbursements	(1,258,239)	40,784	-
Other financing sources (uses), net	1,610,573	(371,825)	-
Excess of receipts and other financing sources over disbursements and other financing use:	352,334	(331,041)	-
Balances beginning of year	2,824,666	1,321,128	-
Balances end of year	\$ 3,177,000	990,087	-

See accompanying independent auditor's report.



Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
2,487,134	2,398,629	2,398,629	88,505
460,648	478,920	478,920	(18,272)
808,153	1,003,324	1,003,324	(195,171)
59,605	31,955	31,955	27,650
53,719	53,925	53,925	(206)
1,568,778	2,192,568	1,835,737	(266,959)
2,254,468	2,417,200	2,417,200	(162,732)
154,144	107,000	167,965	(13,821)
297,745	800,876	307,887	(10,142)
8,144,394	9,484,397	8,695,542	(551,148)
1,283,259	1,378,990	1,378,990	95,731
1,210,853	1,202,568	1,258,214	47,361
849,916	851,290	858,454	8,538
328,015	283,184	408,116	80,101
235,480	262,941	262,941	27,461
1,703,677	1,340,070	1,718,655	14,978
1,952,614	2,998,348	2,630,927	678,313
1,798,035	2,170,559	1,935,728	137,693
9,361,849	10,487,950	10,452,025	1,090,176
(1,217,455)	(1,003,553)	(1,756,483)	539,028
1,238,748	600,000	1,250,228	(11,480)
21,293	(403,553)	(506,255)	527,548
4,145,794	3,555,909	4,143,970	1,824
4,167,087	3,152,356	3,637,715	529,372

City of Manchester

Notes to Other Information – Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue, Capital Project, Debt Service and Enterprise Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted receipts by \$788,855 and decreased budgeted disbursements by \$35,925. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted prior to amendment.

### **Supplementary Information**

## City of Manchester

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds - Summary

As of and for the year ended June 30, 2014

	Non-Major Special Revenue Funds	Non-Major Capital Project Funds	Total
<b>Receipts:</b>			
Property tax	\$ 446,437	-	446,437
Tax increment financing collections	460,648	-	460,648
Other city tax	288,607	-	288,607
Use of money and property	1,829	1,438	3,267
Intergovernmental	527,638	464,355	991,993
Charges for services	4,305	-	4,305
Special Assessment	-	83,495	83,495
Miscellaneous	160,783	7,122	167,905
<b>Total receipts</b>	<b>1,890,247</b>	<b>556,410</b>	<b>2,446,657</b>
<b>Disbursements:</b>			
Operating:			
Public safety	6,169	-	6,169
Public works	568,350	16,835	585,185
Culture and recreation	81,077	-	81,077
Community and economic developr	139,604	-	139,604
General government	42,623	-	42,623
Debt service	-	-	-
Capital projects	-	370,215	370,215
<b>Total disbursements</b>	<b>837,823</b>	<b>387,050</b>	<b>1,224,873</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>1,052,424</b>	<b>169,360</b>	<b>1,221,784</b>
<b>Other financing sources:</b>			
Miscellaneous	-	-	-
Operating transfers in	26,720	80,000	106,720
Operating transfers out	(1,149,987)	(95,000)	(1,244,987)
<b>Net change in cash balances</b>	<b>(70,843)</b>	<b>154,360</b>	<b>83,517</b>
<b>Cash balances beginning of year</b>	<b>747,865</b>	<b>(6,302)</b>	<b>741,563</b>
<b>Cash balances end of year</b>	<b>\$ 677,022</b>	<b>148,058</b>	<b>825,080</b>
<b>Cash Basis Fund Balances</b>			
<b>Restricted for:</b>			
Streets	\$ 190,963	-	190,963
Capital expenditures	-	112,308	112,308
Urban renewal purposes	70,840	-	70,840
Other purposes	82,318	-	82,318
<b>Committed for:</b>			
Capital expenditures	-	180,225	180,225
Other purposes	101,625	-	101,625
<b>Assigned for:</b>			
Capital expenditures	192,847	37,371	230,218
Other purposes	38,429	-	38,429
Unassigned	-	(181,846)	(181,846)
<b>Total cash basis fund balances</b>	<b>\$ 677,022</b>	<b>148,058</b>	<b>825,080</b>

See accompanying independent auditor's report



## City of Manchester

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds - Special Revenue Funds

As of and for the year ended June 30, 2014

	Special Revenue					
	Franchise Fee Gas & Electric	Road Use Tax	Employee Benefits	Police Special Uses	T.I.F.	Tirrill Trust
Receipts:						
Property tax	\$ -	-	446,437	-	-	-
Tax increment financing collections	-	-	-	-	460,648	-
Other city tax	288,607	-	-	-	-	-
Use of money and property	-	-	5	12	1,039	2
Intergovernmental	-	517,143	-	500	-	-
Charges for services	-	-	-	-	-	-
Special assessment	-	-	-	-	-	-
Miscellaneous	46,178	-	33,171	7,090	-	8,689
Total receipts	334,785	517,143	479,613	7,602	461,687	8,691
Disbursements:						
Operating:						
Public safety	-	-	-	5,672	-	-
Public works	-	568,350	-	-	-	-
Culture and recreation	-	-	-	-	-	14,377
Community and economic developme	-	-	-	-	30,834	-
General government	60	-	42,563	-	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	60	568,350	42,563	5,672	30,834	14,377
Excess (deficiency) of receipts over (under) disbursements	334,725	(51,207)	437,050	1,930	430,853	(5,686)
Other financing sources:						
Miscellaneous	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	5,700
Operating transfers out	(302,570)	-	(374,682)	(7,038)	(458,697)	-
Net change in cash balances	32,155	(51,207)	62,368	(5,108)	(27,844)	14
Cash balances beginning of year	-	242,170	16,466	11,749	98,684	470
Cash balances end of year	\$ 32,155	190,963	78,834	6,641	70,840	484
Cash Basis Fund Balances						
Restricted for:						
Streets	\$ -	190,963	-	-	-	-
Urban renewal purposes	-	-	-	-	70,840	-
Other purposes	-	-	78,834	-	-	484
Committed for other purposes	32,155	-	-	-	-	-
Assigned for:						
Capital expenditures	-	-	-	-	-	-
Other purposes	-	-	-	6,641	-	-
Total cash basis fund balances	\$ 32,155	190,963	78,834	6,641	70,840	484

See accompanying independent auditor's report

Special Revenue (continued)								
Police COPS	Police K9	Park Gift & Trust	Park Improvement	Housing Acquisition & Demolition	Library Gift & Trust	Economic Development RLF	Lora Stewart Trust	Total
-	-	-	-	-	-	-	-	446,437
-	-	-	-	-	-	-	-	460,648
-	-	-	-	-	-	-	-	288,607
-	23	116	150	65	409	-	8	1,829
-	-	2,750	-	-	7,245	-	-	527,638
-	-	4,305	-	-	-	-	-	4,305
-	-	-	-	-	-	-	-	-
4,000	2,740	4,736	32,789	7,524	8,300	5,566	-	160,783
4,000	2,763	11,907	32,939	7,589	15,954	5,566	8	1,890,247
-	497	-	-	-	-	-	-	6,169
-	-	-	-	-	-	-	-	568,350
-	-	9,923	40,453	-	16,324	-	-	81,077
-	-	-	-	108,770	-	-	-	139,604
-	-	-	-	-	-	-	-	42,623
-	-	-	-	-	-	-	-	-
-	497	9,923	40,453	108,770	16,324	-	-	837,823
4,000	2,266	1,984	(7,514)	(101,181)	(370)	5,566	8	1,052,424
-	-	-	-	-	-	-	-	-
-	-	-	21,020	-	-	-	-	26,720
(4,000)	(3,000)	-	-	-	-	-	-	(1,149,987)
-	(734)	1,984	13,506	(101,181)	(370)	5,566	8	(70,843)
-	4,032	25,411	94,197	170,651	58,119	22,924	2,992	747,865
-	3,298	27,395	107,703	69,470	57,749	28,490	3,000	677,022
-	-	-	-	-	-	-	-	190,963
-	-	-	-	-	-	-	-	70,840
-	-	-	-	-	-	-	3,000	82,318
-	-	-	-	69,470	-	-	-	101,625
-	-	27,395	107,703	-	57,749	-	-	192,847
-	3,298	-	-	-	-	28,490	-	38,429
-	3,298	27,395	107,703	69,470	57,749	28,490	3,000	677,022

## City of Manchester

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds - Capital Project Funds

As of and for the year ended June 30, 2014

	Capital Projects			
	Capital Projects Levied	Downtown Incentive	Bikeway Walkway Project	Street Improvement
Receipts:				
Property tax	\$ -	-	-	-
Tax increment financing collections	-	-	-	-
Other city tax	-	-	-	-
Use of money and property	-	1,059	-	379
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Special Assessment	-	-	-	83,495
Miscellaneous	-	6,672	-	-
Total receipts	-	7,731	-	83,874
Disbursements:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	16,835	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Debt service	-	-	-	-
Capital projects	26,526	65,170	-	43,166
Total disbursements	26,526	65,170	16,835	43,166
Excess (deficiency) of receipts over (under) disbursements	(26,526)	(57,439)	(16,835)	40,708
Other financing sources:				
Miscellaneous	-	-	-	-
Operating transfers in	20,000	50,000	10,000	-
Operating transfers out	-	-	-	(95,000)
Net change in cash balances	(6,526)	(7,439)	(6,835)	(54,292)
Cash balances beginning of year	10,179	187,664	8,698	86,147
Cash balances end of year	\$ 3,653	180,225	1,863	31,855
Cash Basis Fund Balances				
Restricted for capital expenditures	\$ -	-	-	-
Committed for capital expenditures	-	180,225	-	-
Assigned for capital expenditures	3,653	-	1,863	31,855
Unassigned	-	-	-	-
Total cash basis fund balances	\$ 3,653	180,225	1,863	31,855

See accompanying independent auditor's report

Capital Projects (continued)		
CDBG Housing Grants	FEMA Projects	Total
-	-	-
-	-	-
-	-	-
-	-	1,438
268,161	196,194	464,355
-	-	-
-	-	83,495
-	450	7,122
268,161	196,644	556,410
-	-	-
-	-	16,835
-	-	-
-	-	-
-	-	-
212,043	23,310	370,215
212,043	23,310	387,050
56,118	173,334	169,360
-	-	-
-	-	80,000
-	-	(95,000)
56,118	173,334	154,360
(237,964)	(61,026)	(6,302)
(181,846)	112,308	148,058
-	112,308	112,308
-	-	180,225
-	-	37,371
(181,846)	-	(181,846)
(181,846)	112,308	148,058



## City of Manchester

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2014

	Water Debt Service	Water Capital Improvement	Utility Deposit Trust	Sewer Capital Improvement
Receipts:				
Operating receipts:				
Use of money and property	\$ -	-	-	-
Intergovernmental	-	-	-	-
Charges for service	-	-	8,401	-
Miscellaneous	-	8,785	-	-
Total operating receipts	-	8,785	8,401	-
Operating disbursements:				
Business type activities	105,298	98,343	8,715	73,767
Total operating disbursements	105,298	98,343	8,715	73,767
Excess (deficiency) of operating receipts over (under) operating disbursements	(105,298)	(89,558)	(314)	(73,767)
Other financing sources (uses)				
Operating transfers out	105,298	-	-	-
Operating transfers in	-	-	-	-
Net change in cash balances	-	(89,558)	(314)	(73,767)
Cash balances beginning of year	-	189,156	44,711	241,744
Cash balances end of year	\$ -	99,598	44,397	167,977
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ -	-	-	-
Committed for capital expenditures	-	-	-	-
Assigned for:				
Capital expenditures	-	-	-	167,977
Other purposes	-	-	44,397	-
Unassigned	-	99,598	-	-
Total cash basis fund balances	\$ -	99,598	44,397	167,977

See accompanying independent auditor's report

<u>Sewer Replacement</u>	<u>Total</u>
69	69
-	-
-	8,401
-	8,785
69	17,255
-	286,123
-	286,123
69	(268,868)
9,290	114,588
-	-
9,359	(154,280)
38,098	513,709
47,457	359,429
-	-
47,457	47,457
-	167,977
-	44,397
-	99,598
47,457	359,429

City of Manchester  
Schedule of Indebtedness  
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Corporate purpose, Series 2007	October 1, 2007	3.75 - 4.05%	715,000
Fire station	February 13, 2008	3.85%	800,000
Corporate purpose, Series 2008	July 1, 2008	3.30 - 4.10%	2,645,000
Corporate purpose, Series 2010	May 15, 2010	1.40 - 3.60%	1,865,000
Water improvement, Series 2010	November 23, 2010	.85 - 3.15%	550,000
Corporate purpose, Series 2012	May 3, 2012	.60 - 1.60%	1,000,000
Corporate purpose, Series 2013	April 23, 2013	.35 - 1.9%	1,795,000
Corporate purpose, Series 2014A	May 27, 2014	.50 - 2.45%	1,130,000
State revolving fund - Sewer revenue bonds	July 2, 2008	3.00%	\$6,010,000
Water revenue bonds	December 20, 2011	3.00%	909,000

See accompanying independent auditor's report

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
395,000	-	395,000	-	15,615	-
620,000	-	38,000	582,000	23,870	-
1,335,000	-	260,000	1,075,000	52,310	-
1,110,000	-	265,000	845,000	31,345	-
450,000	-	50,000	400,000	10,305	-
920,000	-	80,000	840,000	10,010	-
1,795,000	-	445,000	1,350,000	15,699	-
-	1,130,000	-	1,130,000	-	-
<u>\$ 6,625,000</u>	<u>1,130,000</u>	<u>1,533,000</u>	<u>6,222,000</u>	<u>159,154</u>	<u>-</u>
 \$ 5,198,000	 -	 253,000	 4,945,000	 155,940	 -
718,862	112,138	81,000	750,000	22,220	-
<u>\$ 5,916,862</u>	<u>112,138</u>	<u>334,000</u>	<u>5,695,000</u>	<u>178,160</u>	<u>-</u>



## City of Manchester

## Bond and Note Maturities

June 30, 2014

Year Ending June 30,	General Obligation Bonds and Notes							
	Fire Station		Corporate Purpose		Corporate Purpose		Corporate Purpose	
	February 13, 2008		Series 2008		Series 2010		Series 2010B	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2015	3.85%	40,000	3.85%	270,000	2.40%	135,000	1.55%	55,000
2016	3.85%	41,000	3.95%	310,000	2.75%	135,000	1.85%	55,000
2017	3.85%	42,000	4.00%	245,000	3.00%	135,000	2.10%	55,000
2018	3.85%	42,000	4.10%	250,000	3.25%	145,000	2.40%	55,000
2019	3.85%	43,000	-	-	3.40%	145,000	2.70%	60,000
2020	3.85%	43,000	-	-	3.60%	150,000	3.00%	60,000
2021	3.85%	44,000	-	-	-	-	3.15%	60,000
2022	3.85%	45,000	-	-	-	-	-	-
2023	3.85%	47,000	-	-	-	-	-	-
2024	3.85%	48,000	-	-	-	-	-	-
2025	3.85%	48,000	-	-	-	-	-	-
2026	3.85%	49,000	-	-	-	-	-	-
2027	3.85%	50,000	-	-	-	-	-	-
		<u>582,000</u>	Total	<u>1,075,000</u>		<u>845,000</u>		<u>400,000</u>

Year Ending June 30,	State Revolving Fund Revenue Bonds		State Revolving Fund Revenue Bonds		Total
	July 2, 2008		December 20, 2011		
	Interest Rates	Amount	Interest Rates	Amount	
2015	3.00%	261,000	3.00%	84,000	345,000
2016	3.00%	270,000	3.00%	86,000	356,000
2017	3.00%	278,000	3.00%	89,000	367,000
2018	3.00%	287,000	3.00%	92,000	379,000
2019	3.00%	297,000	3.00%	95,000	392,000
2020	3.00%	306,000	3.00%	98,000	404,000
2021	3.00%	316,000	3.00%	101,000	417,000
2022	3.00%	327,000	3.00%	105,000	432,000
2023	3.00%	337,000		-	337,000
2024	3.00%	348,000		-	348,000
2025	3.00%	359,000		-	359,000
2026	3.00%	371,000		-	371,000
2027	3.00%	383,000		-	383,000
2028	3.00%	396,000		-	396,000
2029	3.00%	409,000		-	409,000
		\$4,945,000		750,000	5,695,000

See accompanying independent auditor's report

Year Ending June 30,	General Obligation Bonds and Notes						
	Corporate Purpose Series 2012		Corporate Purpose Series 2013		Corporate Purpose Series 2014A		Total
	May 3, 2012		April 23, 2013		May 27, 2014		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2015	0.80%	215,000	0.45%	455,000	0.50%	80,000	
2016	1.00%	215,000	0.60%	140,000	0.50%	160,000	1,056,000
2017	1.20%	225,000	0.75%	115,000	0.80%	155,000	972,000
2018	1.60%	95,000	0.95%	125,000	1.10%	165,000	877,000
2019	1.60%	70,000	1.05%	100,000	1.70%	80,000	498,000
2020	1.60%	20,000	1.30%	100,000	1.70%	80,000	453,000
2021		-	1.50%	105,000	1.70%	80,000	289,000
2022		-	1.70%	105,000	2.10%	85,000	235,000
2023		-	1.90%	105,000	2.10%	85,000	237,000
2024		-		-	2.45%	90,000	138,000
2025		-		-	2.45%	70,000	118,000
2026		-		-		-	49,000
2027		-		-		-	50,000
		840,000		1,350,000		1,130,000	6,222,000

## City of Manchester

Schedule of Receipts by Source and Disbursements by  
Function - All Governmental Funds

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Receipts:			
Property tax	\$ 2,487,134	2,418,612	2,369,851
Tax increment financing	460,648	482,885	448,997
Other city tax	808,153	514,562	539,479
Licenses and permits	59,605	68,386	81,250
Use of money and property	30,264	39,947	37,534
Intergovernmental	1,568,778	1,788,742	1,164,408
Charges for service	450,766	453,975	467,608
Special assessments	151,447	122,288	115,749
Miscellaneous	288,780	313,766	572,786
	<u>288,780</u>	<u>313,766</u>	<u>572,786</u>
Total	<u>\$ 6,305,575</u>	<u>6,203,163</u>	<u>5,797,662</u>
Disbursements:			
Operating:			
Public safety	\$ 1,283,259	1,349,987	1,307,833
Public works	1,210,853	1,003,015	1,077,500
Culture and recreation	849,916	951,894	797,076
Community and economic development	328,015	291,464	201,313
General government	235,480	1,241,754	284,863
Debt service	1,703,677	1,887,366	1,125,583
Capital projects	1,952,614	1,724,147	1,425,513
	<u>1,952,614</u>	<u>1,724,147</u>	<u>1,425,513</u>
Total	<u>\$ 7,563,814</u>	<u>8,449,627</u>	<u>6,219,681</u>

See accompanying independent auditor's report





James R. Ridihalgh, C.P.A.  
Gene L. Fuelling, C.P.A.  
Donald A. Snitker, C.P.A.  
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639  
Oelwein, IA 50662  
(319)283-1173  
Fax (319)283-2799

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manchester, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Manchester's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manchester's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Manchester's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-14 and II-C-14 to be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-14 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manchester's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Manchester's Responses to Findings

The City of Manchester's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Manchester's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Manchester during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.*

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

February 23, 2015

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The City of Manchester did not expend federal funds in excess of the OMB A-133 Single Audit dollar threshold of \$500,000 for the year ended June 30, 2014.

## **Part II: Findings Related to the Financial Statements:**

### **INTERNAL CONTROL DEFICIENCIES:**

- II-A-14     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. These incompatible duties can be summarized into four general categories: Custody, Authorization, Record-Keeping and Review. Ideally, separate individuals have control over each of the duties listed within the following areas for the City:

Cash – handling, reconciling and recording.

Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.

Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Payroll – recordkeeping, preparation and distribution.

Utilities – billing, collecting, depositing and posting.

Financial reporting – preparation and reconciling.

Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We will consider this and continue to review procedures.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-14     Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting which is a basis of accounting other than U.S. generally accepted accounting principles. The City does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by governmental accounting standards and the cash basis of accounting. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an entity of this size.



Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the City's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the time necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on an ongoing basis. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response acknowledged.

II-C-14 Utility Billing – Per Ordinance 029-2001, Industrial Landfill accounts are to be billed at \$2.80 per month. We noted the City is currently billing these accounts at \$1.40. For the fiscal year ending June 30, 2014, this resulted in eleven accounts being underbilled.

Recommendation – The City should review their utility billing system after all approved rate increases to ensure the proper rates are reflected on the system and charged to customers.

Response – This was an oversight on the part of management and an isolated incident. The utility billing software has been corrected in accordance with Ordinance 029-2001.

Conclusion – Response accepted.

#### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



**Part III: Other Findings Related to Statutory Reporting:**

- III-A-14 Certified Budget – Disbursements for the year ended June 30, 2014 did not exceed the amounts budgeted in accordance with Chapter 384.20 of the Code of Iowa.
- III-B-14 Questionable Disbursements – There were no disbursements noted that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
1) Mark Fink, brother-in-law of employee Chad Eschen	Snow removal, large machinery, demo	\$ 8,905
2) Kimberly Corkery, sibling to employee Kathy Corkery	Baking services	437
3) Price Industrial Electric, employer of fireman Jeremy DeMoss	Electrical services	3,010
4) NE Iowa Telephone Service, owned by fireman Mike Corkery	Telephone service and equipment	8,758
5) Joanne Kramer, spouse of Mayor Milt Kramer	Reimbursement for photos	45
7) Burrington Group, Inc, employer of fireman Randy Rattenberg	Engineering services	300
8) Becker Electric LLC, owned by brother-in-law to employee Perry Peterson	Electrical services	4,482
9) Freiburger Farms, owned by son-in-law to employee Larry Schmidt	Equipment rental	300

In accordance with Chapter 362.5(k) of the Code of Iowa, transactions 1, 3, 4 and 8 may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and the transactions were not competitively bid.

In accordance with Chapter 362.5(j) of the Code of Iowa, the remaining transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City acknowledges the recommendation and will work with legal counsel to develop a policy to ensure the City is in compliance with Chapter 362.5(k) of the Code of Iowa.

Conclusion – Response accepted.

- III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-14 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-14 Revenue Bonds and Notes – Per the Water Revenue Bond, Series 2011 agreement, the City is required to make monthly transfers into a sinking fund in an amount equal to 1/12<sup>th</sup> of the installment of principal coming due on the next succeeding principal payment. The City made only one lump sum transfer at the end of the fiscal year.

Recommendation – The City should make monthly transfers as required by the Water Revenue Bond, Series 2011 agreement.

Response – The City acknowledges the recommendation and will implement the transfer to a sinking fund.

Conclusion – Response accepted.

- III-I-14 Financial Condition – The Capital Projects – CDBG Housing Fund had a deficit balance of \$181,846 at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The deficits were due to construction costs incurred prior to receipt of grant and loan funds. These timing issues occur as a result of grant reimbursement agreements.

Conclusion – Response accepted.

- III-J-14 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid.

No instances of non-compliance with the City's TIF funds noted.

- III-K-14 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

III-L-14 Unclaimed Property – The City has numerous outstanding checks that are being carried on the GNB bank reconciliations. No action is being taken on these items.

Recommendation – We recommend the City review all checks in excess of one year outstanding and report as unclaimed property to the State Treasurer on an annual basis per Chapter 556.11 of the Code of Iowa or consult counsel to determine other options for proper disposal of these items.

Response – The City acknowledges the recommendation and will implement a policy to address checks outstanding for more than one year, which will include participation in the Great Iowa Treasure Hunt.

Conclusion – Response accepted.